

AUDITING PROCEDURES REPORT

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Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Grosse Pointe, Michigan	County Wayne
Audit Date June 30, 2004	Opinion Date September 3, 2004	Date Accountant Report Submitted to State: December 14, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised,
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (PA. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 5750 New King Street, Suite 100	City Troy	State MI	Zip 48098
<div>Accountant Signature Thomas E. Darling, CPA</div> 			



**CITY OF GROSSE POINTE
MICHIGAN**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
JUNE 30, 2004**

CITY OF GROSSE POINTE, MICHIGAN
Basic Financial Statements and Supplementary Information
For the Year Ended June 30, 2004

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Basic Financial Statements and Supplementary Information
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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

September 3, 2004

To the City Council
City of Grosse Pointe
Wayne County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***City of Grosse Pointe, Michigan***, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ***City of Grosse Pointe, Michigan***'s management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***City of Grosse Pointe, Michigan***, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison of the General fund for the year then ended in conformity with accounting principles general accepted in the United States of America.

As described in Note 1, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments*; Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2003. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2004, on our consideration of the ***City of Grosse Pointe, Michigan's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on Pages 3 through 12 and the Schedule of Funding Progress on Pages 45 and 46 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***City of Grosse Pointe, Michigan's*** basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

CITY OF GROSSE POINTE, MICHIGAN

Management's Discussion and Analysis

As management of the *City of Grosse Pointe, Michigan*, (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the activities of the City for the fiscal year ended June 30, 2004.

Financial Highlights

- The current fiscal year ended with an unreserved, undesignated fund balance in the General Fund of \$1,478,655. This is equivalent to 25.5% of the annual General Fund expenditures.
- Assets of the General Fund exceed its liabilities by \$4,760,331. The unreserved, undesignated fund balance of \$1,478,655 is available to meet the governments on going obligations.
- The City of Grosse Pointe extended an installment loan to the Marina Fund on January 1, 2004 for \$1,350,000 bearing interest at 6%. This will yield \$81,000 in interest to the General Fund during the first year of the advance.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include judicial, general government, public safety, public works, recreation and culture, and health and welfare. The business-type activities of the City include water distribution and sanitary sewer operations, a municipal parking system, and a marina.

CITY OF GROSSE POINTE, MICHIGAN

Management's Discussion and Analysis

Fund financial statements. A *Fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

1. **Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General and Capital Projects funds, each of which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* after the *Notes to Financial Statements*.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets for the General Fund, Major Streets and Local Streets funds.

2. **Proprietary funds.** The City maintains one type of proprietary fund: *Enterprise funds* are used to provide the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sanitary sewer operations, its municipal parking system, and marina.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sanitary sewer operations, municipal parking system, and marina, all of which are considered to be major funds of the City.

CITY OF GROSSE POINTE, MICHIGAN

Management's Discussion and Analysis

3. **Fiduciary funds.** The Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to a schedule concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Grosse Pointe, assets exceeded liabilities by \$22,305,075 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (75%) reflects its investment in capital assets (e.g., land, buildings and improvements, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Since this is the first year of implementation of GASB 34, only current year financial information is presented. In subsequent years, the City will present comparative information.

CITY OF GROSSE POINTE, MICHIGAN

Management's Discussion and Analysis

City of Grosse Pointe's Net Assets

	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 5,751,334	\$ 1,264,018	\$ 7,015,352
Capital assets, net	15,430,039	5,444,762	20,874,801
Total assets	<u>21,181,373</u>	<u>6,708,780</u>	<u>27,890,153</u>
Current liabilities	994,256	405,858	1,400,114
Noncurrent liabilities	4,184,964	-	4,184,964
Total liabilities	<u>5,179,220</u>	<u>405,858</u>	<u>5,585,078</u>
Net assets:			
Invested in capital assets, net of related debt	11,275,039	5,444,762	16,719,801
Restricted assets	560,251	-	560,251
Unrestricted	4,166,863	858,160	5,025,023
Total net assets	<u><u>\$ 16,002,153</u></u>	<u><u>\$ 6,302,922</u></u>	<u><u>\$ 22,305,075</u></u>

An additional portion of the City's net assets (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* of \$5,025,023 or 23%, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's net assets decreased by \$(369,976) during the current fiscal year. This reduction of City funds was a budgeted activity of expenditures for the purpose of refurbishing aging City assets.

CITY OF GROSSE POINTE, MICHIGAN

Management's Discussion and Analysis

City of Grosse Pointe's Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenue:			
Program revenues:			
Charges for services	\$ 506,764	\$ 2,114,115	\$ 2,620,879
Operating grants and contributions	340,585	-	340,585
Capital grants and contributions	35,533	-	35,533
General revenues:			-
Property taxes	4,791,801	-	4,791,801
State shared revenue	519,383	-	519,383
Grants and contributions not restricted to specific programs	661,540	-	661,540
Other	71,225	37,439	108,664
Total revenues	<u>6,926,831</u>	<u>2,151,554</u>	<u>9,078,385</u>
Expenses:			
Judicial	156,430	-	156,430
General government	941,403	-	941,403
Public safety	2,798,781	-	2,798,781
Public works	2,868,820	-	2,868,820
Recreation and culture	707,107	-	707,107
Health and welfare	-	-	-
Interest on long-term debt	191,999	-	191,999
Water and sewer	-	1,474,892	1,474,892
Automobile parking	-	213,664	213,664
Marina	-	95,265	95,265
Total expenses	<u>7,664,540</u>	<u>1,783,821</u>	<u>9,448,361</u>
Increase (decrease) in net assets	<u>(737,709)</u>	<u>367,733</u>	<u>(369,976)</u>
Net assets-beginning	<u>16,739,862</u>	<u>5,935,189</u>	<u>22,675,051</u>
Net assets-ending	<u><u>\$ 16,002,153</u></u>	<u><u>\$ 6,302,922</u></u>	<u><u>\$ 22,305,075</u></u>

Governmental activities. Governmental activities decreased the City's net assets by \$(737,709), thereby accounting for 199% of the City's change in total net assets. Key elements of this are as follows:

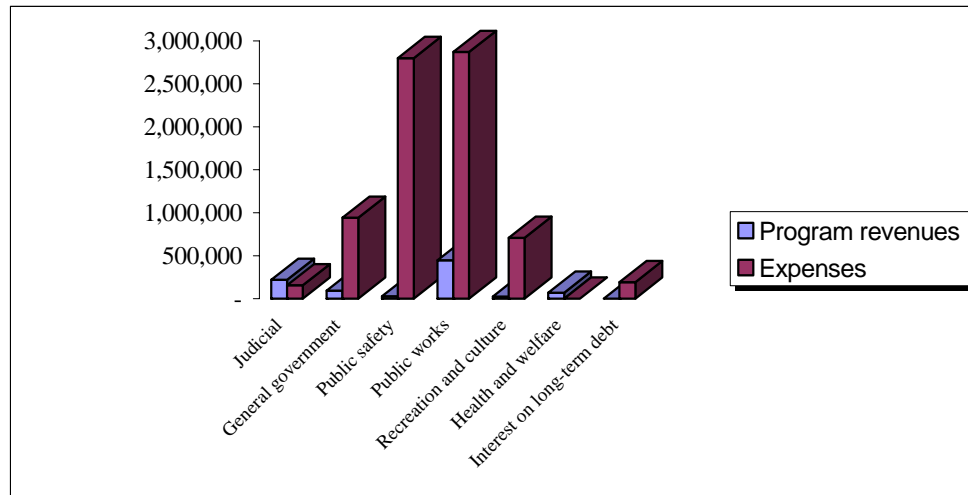
- Street resurfacing,
- Tennis court renovation,
- Neff Park improvements, and
- Fire station and equipment refurbishing.

CITY OF GROSSE POINTE, MICHIGAN

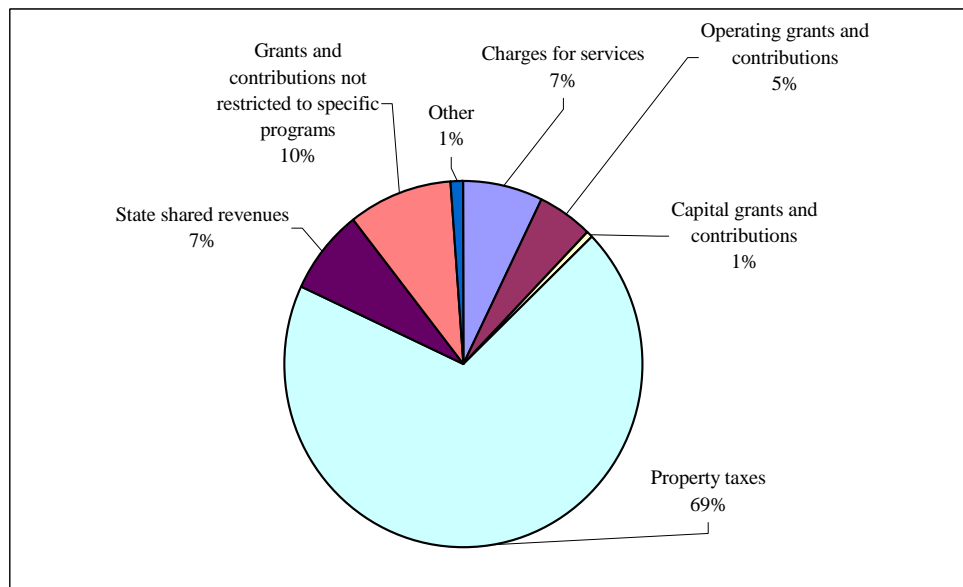
Management's Discussion and Analysis

- Property tax rates remained flat this year. The increase in revenue occurred as a function of the increased assessed taxable values.
- For the most part increases in expenses closely paralleled inflation and growth in demand for services.

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



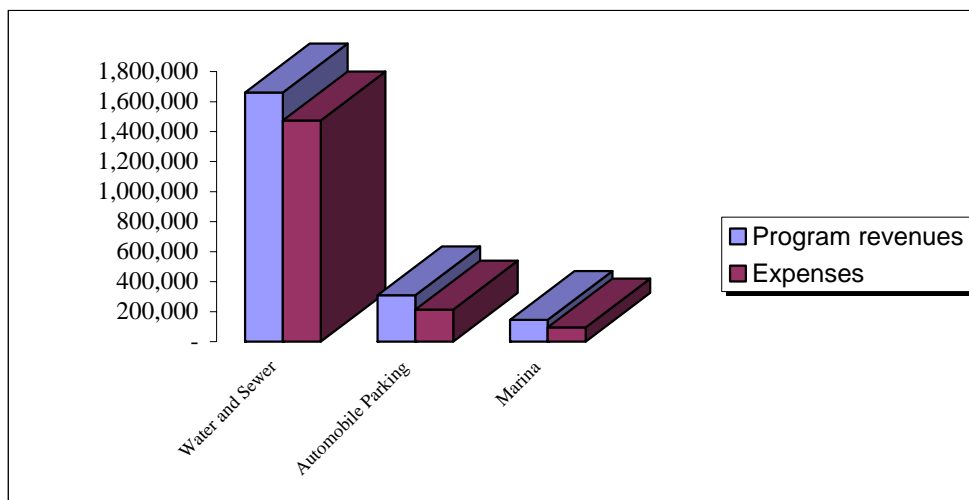
CITY OF GROSSE POINTE, MICHIGAN

Management's Discussion and Analysis

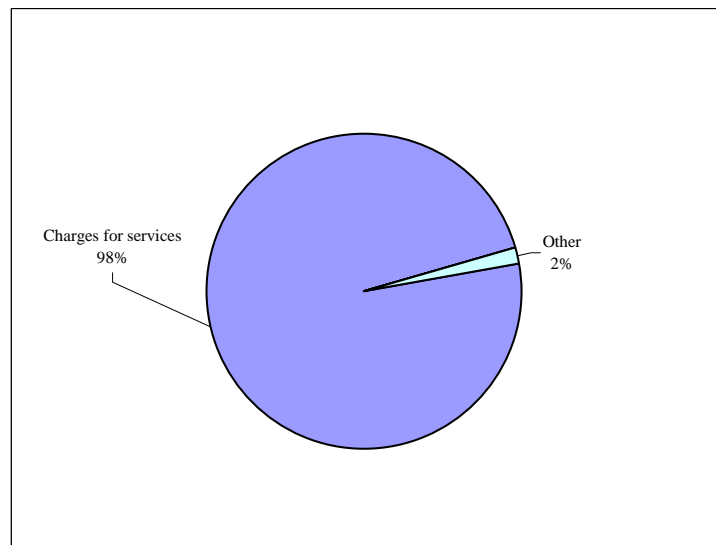
Business-type Activities. Business-type activities increased the City's net assets by \$367,733 , accounting for the offset to the City's total decrease in net assets. Key elements of this increase are as follows:

- The fee structure for the business type activities is designed to build cash reserves for anticipated future capital expenditures.
-

Expenses and Program Revenues - Business-Type Activities



Revenues by Source – Business-Type Activities



CITY OF GROSSE POINTE, MICHIGAN

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,320,582 , a decrease of \$(198,864) in comparison with the prior year. Approximately 49% of this total amount \$2,605,856 constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. Another 23%, \$1,234,583 is *unreserved, designated*. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to other purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, *unreserved* fund balance of the general fund was \$3,280,188 , while total fund balance was \$4,760,331 . As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 57% of total general fund expenditures, while total fund balance represents 82% of the same amount.

The fund balance of the City's general fund increased by \$2,702,949 during the current fiscal year. This is primarily attributable to the closing of the capital projects fund, which brought a transfer in of \$2,967,609 to the general fund. The remaining reduction of \$264,660 is the net of the transfers out to other funds and the positive change in fund balance of \$514,985.

The capital projects fund has a total fund balance of \$0 due to transferring the entire balance of \$2,906,537 to the general fund.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$1,417,752 and the Automobile Parking System amounted to \$879,179 . The increase in net assets for both funds was \$205,154 and \$106,599 , respectively. Over the past several years, the fund balance of the Water and Sewer Fund was allowed to build up in order to address the continuing maintenance costs of an aging system.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor. The increase in budgeted revenues of \$55,400 and increase in budgeted expenditures of \$287,000 can be briefly summarized as follows:

- The budget was increased to account for Cable Franchise income of \$55,400 previously not

CITY OF GROSSE POINTE, MICHIGAN

Management's Discussion and Analysis

budgeted in the General Fund.

- The Parks and Recreation budget was expanded by \$208,950 to cover additional renovation expenses.
- The City Operations Budget was escalated by \$46,850 to cover expenditures associated with Master Plan development and Shopping District analysis.
- The remaining \$31,200 of budgetary increases was allocated to Public Works for a variety of small maintenance issues.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounted to \$20,874,801 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, vehicles, and roads, highways, and other infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was \$1,409,319 or 7% which represents a decrease in governmental activities of \$(629,559) or -4%, and an increase in business-type activities of \$2,038,878 or 60%.

Major capital asset events during the current fiscal year included the following:

- Restoration of Tennis Courts at the Elworthy Field for a capital investment of about \$250,000. Much of this cost was offset by a contribution from the Grosse Pointe School System.
- The complete replacement of one local street for a cost of near \$260,000.
- A major concentration to upgrade the City's sewer infrastructure and Pump Station has taken place over the last two fiscal years in an attempt to upgrade a extremely old system and simultaneously reducing our exposure for liability due to a failed system.
- Fire safety and electrical improvements for City Hall were also a concentration for repair to a deteriorating system.
- Public Safety extended the useful life of their oldest fire engine through a capital expenditure to have it refurbished.

City of Grosse Pointe's Capital Assets (net of depreciation)

	Governmental Activities	Business-Type Activities	Total
Land	\$ 953,739	\$ 1,000,845	\$ 1,954,584
Buildings and systems	4,491,908	4,352,962	8,844,870
Vehicles and Equipment	847,872	90,955	938,827
Improvements	586,878		586,878
Elworthy Park	317,395		317,395
Other	2,984,965		2,984,965
Infrastructure	5,247,282		5,247,282
Total	<u>\$ 15,430,039</u>	<u>\$ 5,444,762</u>	<u>\$ 20,874,801</u>

CITY OF GROSSE POINTE, MICHIGAN

Management's Discussion and Analysis

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$4,155,000 , backed by the full faith and credit of the government. Its purpose is attributable in total to governmental activities.

City of Grosse Pointe's Outstanding Debt General Obligation Bonds

	Governmental Activities	Business-Type Activities	Total
Building Authority bonds	\$ 1,655,000	\$ -	\$ 1,655,000
General obligation bonds	2,500,000	-	2,500,000
	<u>\$ 4,155,000</u>	<u>\$ -</u>	<u>\$ 4,155,000</u>

There were no new issues of general obligation debt during the fiscal year ended. Total obligation debt decreased by \$(165,000) due to payments on principal by the City during the year.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2004-05 fiscal year:

- Current property development and projected assessed valuation.
- The reduction of State Shared Revenue.
- Inflation and the rising cost of employee benefits.
- Public Safety Contract negotiations.
- Rising water supply and sewage processing cost.
- Expanded Recreation Program Services and the associated expenses.
- Planning for additional Forestry expenditures as it relates to the Ash Borer infestation.
- Capital expenditures for aging infrastructure (Streets, Water Mains and Sewers) along with capital expenditures for equipment replacement.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 17147 Maumee Avenue, Grosse Pointe, Michigan 48230.

***BASIC FINANCIAL
STATEMENTS***

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$ 4,160,761	\$ 1,693,700	\$ 5,854,461
Receivables (net)	670,537	458,906	1,129,443
Internal balances	888,588	(888,588)	-
Prepaid expenses	31,448	-	31,448
Capital assets not being depreciated	953,739	1,000,845	1,954,584
Capital assets being depreciated, net	14,476,300	4,443,917	18,920,217
Total assets	21,181,373	6,708,780	27,890,153
Liabilities			
Accounts payable	416,270	375,478	791,748
Unearned revenue	41,000	30,380	71,380
Noncurrent liabilities:			
Due within one year	536,986	-	536,986
Due in more than one year	4,184,964	-	4,184,964
Total liabilities	5,179,220	405,858	5,585,078
Net assets			
Invested in capital assets, net of related debt	11,275,039	4,443,917	15,718,956
Restricted for:			
Highways and streets	68,381	-	68,381
Public safety	16,870	-	16,870
Other purposes	475,000	-	475,000
Unrestricted	4,166,863	1,859,005	6,025,868
Total net assets	\$ 16,002,153	\$ 6,302,922	\$ 22,305,075

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
Judicial	\$ 156,430	\$ 219,140	\$ -	\$ -	\$ 62,710
General government	941,404	83,890	1,222	8,400	(847,892)
Public safety	2,798,780	-	2,003	27,133	(2,769,644)
Public works	2,868,820	109,501	337,360	-	(2,421,959)
Recreation and culture	707,107	25,108	-	-	(681,999)
Health and welfare	-	69,125	-	-	69,125
Interest on long-term debt	191,999	-	-	-	(191,999)
Total governmental activities	<u>7,664,540</u>	<u>506,764</u>	<u>340,585</u>	<u>35,533</u>	<u>(6,781,658)</u>
Business-type activities:					
Water and sewer	1,474,892	1,660,646	-	-	185,754
Automobile parking	213,664	308,534	-	-	94,870
Marina	95,265	144,935	-	-	49,670
Total business-type activities	<u>1,783,821</u>	<u>2,114,115</u>	<u>-</u>	<u>-</u>	<u>330,294</u>
Total primary government	<u>\$ 9,448,361</u>	<u>\$ 2,620,879</u>	<u>\$ 340,585</u>	<u>\$ 35,533</u>	<u>\$ (6,451,364)</u>

continued...

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF ACTIVITIES (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (6,781,658)	\$ 330,294	\$ (6,451,364)
General revenues:			
Property taxes	4,791,801	-	4,791,801
State shared revenue	519,383	-	519,383
Grants and contributions not restricted to specific programs	661,540	-	661,540
Unrestricted investment earnings	71,225	37,439	108,664
Total general revenues	6,043,949	37,439	6,081,388
Change in net assets	(737,709)	367,733	(369,976)
Net assets, beginning of year, as restated	16,739,862	5,935,189	22,675,051
Net assets, end of year	<u>\$ 16,002,153</u>	<u>\$ 6,302,922</u>	<u>\$ 22,305,075</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 3,685,761	\$ -	\$ 475,000	\$ 4,160,761
Receivables:				
Accounts receivable	146,592	-	-	146,592
Taxes-delinquent	269,736	-	-	269,736
Less: allowance for doubtful accounts	(43,094)	-	-	(43,094)
Interest and dividends	34,607	-	-	34,607
Due from other funds	153,252	16,213	117,980	287,445
Due from other governments	205,395	-	57,301	262,696
Advance to other fund	1,350,000	-	-	1,350,000
Prepaid expenses	31,448	-	-	31,448
Total assets	<u>\$ 5,833,697</u>	<u>\$ 16,213</u>	<u>\$ 650,281</u>	<u>\$ 6,500,191</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 220,187	\$ 1,105	\$ 35,413	\$ 256,705
Accrued liabilities	73,570	-	-	73,570
Cash bonds and deposits	54,340	-	-	54,340
Due to other funds	679,132	15,108	54,617	748,857
Deferred revenue	46,137	-	-	46,137
Total liabilities	<u>1,073,366</u>	<u>16,213</u>	<u>90,030</u>	<u>1,179,609</u>
Fund balances:				
Reserved for:				
Prepays	31,448	-	-	31,448
Other purposes	1,448,695	-	-	1,448,695
Unreserved, designated	1,801,533	-	-	1,801,533
Unreserved, undesignated for:				
General funds	1,478,655	-	-	1,478,655
Special revenue funds	-	-	560,251	560,251
Total fund balances	<u>4,760,331</u>	<u>-</u>	<u>560,251</u>	<u>5,320,582</u>
Total liabilities and fund balances	<u>\$ 5,833,697</u>	<u>\$ 16,213</u>	<u>\$ 650,281</u>	<u>\$ 6,500,191</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENTS OF NET ASSETS
JUNE 30, 2004

Fund balances - total governmental funds	\$ 5,320,582
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	27,591,245
Deduct: accumulated depreciation	(12,161,206)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds.

Add: deferred revenues	5,137
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: interest payable	(31,655)
Deduct: bonds payable	(4,155,000)
Deduct: compensated absences	(566,950)

Net assets of governmental activities	<u>\$ 16,002,153</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 4,633,162	\$ -	\$ 158,012	\$ 4,791,174
Licenses and permits	81,214	-	-	81,214
Intergovernmental				
Federal	36,755	-	-	36,755
State	521,386	-	337,360	858,746
Local	-	-	-	-
Charges for services	203,734	-	-	203,734
Fines and forfeitures	233,211	-	-	233,211
Interest and rent	69,385	71,225	-	140,610
Other	527,303	48,720	4,737	580,760
Total revenues	<u>6,306,150</u>	<u>119,945</u>	<u>500,109</u>	<u>6,926,204</u>
Expenditures				
Current:				
Judicial	156,430	-	-	156,430
General government	959,986	-	-	959,986
Public safety	2,505,168	-	336	2,505,504
Public works	1,099,137	-	636,860	1,735,997
Parks and recreation	504,859	-	-	504,859
Debt service				
Principal	-	-	165,000	165,000
Interest and fees	-	-	193,120	193,120
Capital Outlay	565,585	58,873	279,714	904,172
Total expenditures	<u>5,791,165</u>	<u>58,873</u>	<u>1,275,030</u>	<u>7,125,068</u>
Revenues over (under) expenditures	<u>514,985</u>	<u>61,072</u>	<u>(774,921)</u>	<u>(198,864)</u>
Other financing sources (uses)				
Transfers in	2,967,609	-	779,645	3,747,254
Transfers out	(779,645)	(2,967,609)	-	(3,747,254)
Total other financing sources (uses)	<u>2,187,964</u>	<u>(2,967,609)</u>	<u>779,645</u>	<u>-</u>
Net change in fund balances	2,702,949	(2,906,537)	4,724	(198,864)
Fund balances, beginning of year	<u>2,057,382</u>	<u>2,906,537</u>	<u>555,527</u>	<u>5,519,446</u>
Fund balances, end of year	<u>\$ 4,760,331</u>	<u>\$ -</u>	<u>\$ 560,251</u>	<u>\$ 5,320,582</u>

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds \$ (198,864)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	904,172
Deduct: depreciation expense	(1,278,404)
Deduct: loss on disposal of capital assets	(255,327)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: net difference in deferred revenue	627
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Repayment of bond principal is an expenditure in the governmental funds, but decreases debt at the statement of net assets.

Add: principal payments on long-term liabilities	165,000
Add: change in interest payable on long-term liabilities	1,121

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in the accrual for compensated absences	(76,034)
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Change in net assets of governmental activities	\$ (737,709)
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The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Property taxes	\$ 4,785,374	\$ 4,785,374	\$ 4,633,162	\$ (152,212)
Licenses and permits	69,050	69,050	81,214	12,164
Fines and forfeitures	192,325	192,325	233,211	40,886
Intergovernmental	563,900	563,900	558,141	(5,759)
Charges for services	185,690	185,690	203,734	18,044
Investment earnings	140,000	140,000	69,385	(70,615)
Other	137,890	193,290	527,303	334,013
Total revenues	<u>6,074,229</u>	<u>6,129,629</u>	<u>6,306,150</u>	<u>176,521</u>
Expenditures				
Judicial	141,436	141,436	156,430	14,994
General government	899,034	945,884	959,986	14,102
Public safety	2,646,296	2,646,296	2,505,168	(141,128)
Public works	1,041,374	1,072,574	1,099,137	26,563
Culture and recreation	444,103	542,053	504,859	(37,194)
Capital outlay	341,000	452,000	565,585	113,585
Total expenditures	<u>5,513,243</u>	<u>5,800,243</u>	<u>5,791,165</u>	<u>(9,078)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>560,986</u>	<u>329,386</u>	<u>514,985</u>	<u>185,599</u>
Other financing sources (uses)				
Transfers in	-	-	2,967,609	2,967,609
Transfers out	<u>(897,317)</u>	<u>(897,317)</u>	<u>(779,645)</u>	<u>117,672</u>
Total other financing sources (uses)	<u>(897,317)</u>	<u>(897,317)</u>	<u>2,187,964</u>	<u>3,085,281</u>
Net change in fund balances	(336,331)	(567,931)	2,702,949	3,270,880
Fund balance, beginning of year	<u>2,057,382</u>	<u>2,057,382</u>	<u>2,057,382</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 1,721,051</u></u>	<u><u>\$ 1,489,451</u></u>	<u><u>\$ 4,760,331</u></u>	<u><u>\$ 3,270,880</u></u>

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	Major Funds			
	Water Supply and Sewage Disposal System	Automobile Parking System	Marina	Total
Assets				
Current assets:				
Cash and investments	\$ 925,864	\$ 667,836	\$ 100,000	\$ 1,693,700
Receivables:				
Customers	395,814	-	-	395,814
Accrued interest	5,090	2,856	347	8,293
Other	42,665	12,134	-	54,799
Due from other funds	315,566	231,517	-	547,083
Total current assets	1,684,999	914,343	100,347	2,699,689
Noncurrent assets:				
Capital assets not being depreciated	-	1,000,845	-	1,000,845
Capital assets being depreciated	4,330,566	1,803,153	2,185,689	8,319,408
Less accumulated depreciation	(2,421,106)	(1,411,726)	(42,659)	(3,875,491)
Net capital assets	1,909,460	1,392,272	2,143,030	5,444,762
Total assets	3,594,459	2,306,615	2,243,377	8,144,451
Liabilities				
Current liabilities:				
Accounts payable	267,247	4,784	103,447	375,478
Due to other funds	-	-	85,671	85,671
Advance from other fund	-	-	1,350,000	1,350,000
Deferred revenue	-	30,380	-	30,380
Total current liabilities	267,247	35,164	1,539,118	1,841,529
Net Assets				
Investment in capital assets, net of related debt	1,909,460	391,427	2,143,030	4,443,917
Unrestricted	1,417,752	1,880,024	(1,438,771)	1,859,005
Total net assets	\$ 3,327,212	\$ 2,271,451	\$ 704,259	\$ 6,302,922

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Major Funds			
	Water Supply and Sewage Disposal System	Automobile Parking System	Marina	Total
Operating revenues				
Water sales and sewage disposal	\$ 1,646,986	\$ -	\$ -	\$ 1,646,986
Parking lot and meter charges	-	308,479	-	308,479
Marina rentals and charges for services	-	-	144,935	144,935
Other revenue	13,660	55	-	13,715
Total operating revenues	1,660,646	308,534	144,935	2,114,115
Operating expenses				
General and administrative	103,173	59,192	-	162,365
Cost of water	245,164	-	-	245,164
Cost of sewage disposal	735,323	-	-	735,323
Operation and maintenance	270,881	103,661	55,405	429,947
Depreciation	120,351	50,811	39,860	211,022
Total operating expenses	1,474,892	213,664	95,265	1,783,821
Operating income (loss)	185,754	94,870	49,670	330,294
Non-operating revenues (expenses)				
Interest income	19,400	11,729	6,310	37,439
Change in net assets	205,154	106,599	55,980	367,733
Net assets, beginning of year, as restated	3,122,058	2,164,852	648,279	5,935,189
Net assets, end of year	\$ 3,327,212	\$ 2,271,451	\$ 704,259	\$ 6,302,922

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Major Funds			
	Water Supply and Sewage Disposal System	Automobile Parking System	Marina	Total
Cash flows from operating activities				
Cash received from customers and others	\$ 1,503,507	\$ 299,637	\$ 147,779	\$ 1,950,923
Cash received from interfund balances	-	-	1,588,296	1,588,296
Cash payments for interfund balances	(298,970)	(239,291)	-	(538,261)
Cash payments to employees	(103,279)	(68,109)	(7,028)	(178,416)
Cash payments to suppliers for goods and services	(1,194,318)	(76,107)	17,099	(1,253,326)
Net cash provided (used) by operating activities	(93,060)	(83,870)	1,746,146	1,569,216
Cash flows from investing activities				
Investment income	19,400	11,729	6,310	37,439
Purchase of investment securities	(460,000)	(394,999)	(600,000)	(1,454,999)
Proceeds from sale and maturities of investment securities	455,000	100,000	903,340	1,458,340
Net cash provided (used) by investing activities	14,400	(283,270)	309,650	40,780
Cash flows from capital and related financing activities				
Purchase of capital assets	(194,102)	-	(2,055,796)	(2,249,898)
Net increase (decrease) in cash and cash equivalents	(272,762)	(367,140)	-	(639,902)
Cash and cash equivalents, beginning of year	443,626	539,976	-	983,602
Cash and cash equivalents, end of year	<u>\$ 170,864</u>	<u>\$ 172,836</u>	<u>\$ -</u>	<u>\$ 343,700</u>
Statement of net asset classification of cash and cash equivalents				
Cash and investments	\$ 925,864	\$ 667,836	\$ 100,000	\$ 1,693,700
Less investments with maturities in excess of three months	(755,000)	(495,000)	(100,000)	(1,350,000)
Total cash and cash equivalents	<u>\$ 170,864</u>	<u>\$ 172,836</u>	<u>\$ -</u>	<u>\$ 343,700</u>

CITY OF GROSSE POINTE, MICHIGAN
STATEMENT OF CASH FLOWS (CONCLUDED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Major Funds			
	Water Supply and Sewage Disposal System	Automobile Parking System	Marina	Total
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 185,754	\$ 94,870	\$ 49,670	\$ 330,294
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	120,351	50,811	39,860	211,022
Changes in assets and liabilities:				
Receivables	(157,139)	(8,897)	2,844	(163,192)
Due from other funds	(298,646)	(231,517)	152,625	(377,538)
Prepaid expense	2,468	2,339	-	4,807
Accounts payable	54,476	3,623	65,476	123,575
Due to other funds	(324)	(7,774)	1,435,671	1,427,573
Deferred revenue	-	12,675	-	12,675
Net cash provided (used) by operating activities	\$ (93,060)	\$ (83,870)	\$ 1,746,146	\$ 1,569,216

The accompanying notes are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2004

	Pension Trust Fund	Private Purpose Trust
Assets		
Cash and investments	\$ 32,068,537	\$ 65,350
Interest receivable	150,980	-
Total assets	32,219,517	65,350
Liabilities		
Accounts payable	-	-
Net Assets		
Held in trust for pension benefits	32,219,517	-
Unrestricted, undesignated	-	65,350
Total net assets	\$ 32,219,517	\$ 65,350

CITY OF GROSSE POINTE, MICHIGAN

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FOR THE YEAR ENDED JUNE 30, 2004

	Pension Trust Fund	Private Purpose Trust
Additions		
Contributions - employee	\$ 163,668	\$ -
Investment income (loss)		
Interest and dividends	944,793	1,427
Net appreciation in fair value of investments	2,412,787	-
Other	-	71,465
Total investment earnings	3,357,580	72,892
Total additions	3,521,248	72,892
Deductions		
Retirement benefit payments	959,473	-
Health insurance payments	218,038	-
Administrative expenses	45,488	-
Project costs	-	22,569
Total deductions	1,222,999	22,569
Change in net assets	2,298,249	50,323
Net assets		
Beginning of year	29,921,268	15,027
End of year	\$ 32,219,517	\$ 65,350

See accompanying notes, which are an integral part of these financial statements.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Grosse Pointe, Michigan (the “City” or “government”) is a municipal corporation governed by an elected mayor and six-member council. The accompanying financial statements present the City (the primary government.) The City has no component units, entities for which the government is considered to be financially accountable.

B. Basis of Presentation - Government-Wide and Fund Financial Statements

Government-wide financial statements. The statements of net assets and activities report information on all of the non-fiduciary activities of the primary government (the City.) For the most part, eliminations have been made to remove the effect of double-counting inter-fund activities. These statements distinguish between the City’s *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which direct expenses are offset by program revenues for the different business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable with a particular function or segment. Program revenues include (1) fees, fines and charges paid by the recipients of goods or services offered by the programs and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including taxes and other items, are presented as general revenues.

Fund financial statements. The fund financial statements report in separate statements, information for governmental, proprietary and fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, proprietary and fiduciary fund financial statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues reported in the governmental funds to be available if they are collected within ninety days after year-end, with the exception of property taxes which are reported if they are collected within sixty days of year-end. Property taxes, franchise taxes, intergovernmental revenues, licenses and interest are considered to be susceptible to accrual.

Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

The City reports the following major governmental funds:

General fund. This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital projects fund. This fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

The City reports the following major proprietary funds:

Water and sewer fund. This fund accounts for the activities of the City's water distribution, water treatment, sewage disposal and sewage treatment systems.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

Automobile parking fund. This fund accounts for the activities of the City's parking lot activities.

Marina fund. This fund accounts for the activities of the City's marina.

Additionally, the City reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt service fund. Accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Enterprise funds. These funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Pension trust fund. This fund accounts for the activities of the Employees Retirement System, which accumulates resources for retirement benefits and post-retirement health care payments to qualified employees.

Both the government-wide and proprietary fund financial statements of the City follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are minor charges between the government and business type functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

D. Assets, Liabilities and Equity

Deposits and investments

The City maintains an investment pool for all governmental City funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "due from other funds". The general fund holds the investments in "cash and investments" on the fund's balance sheet. The business-type activities of the City have separate investments, by fund, which are classified on the financial statements as "cash and investments." The cash resources of the Employees Retirement System are invested separately.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments. The State's Pension Investment Act, as amended, authorizes the pension trust fund, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

Unrealized appreciation or depreciation on the pension trust fund investments due to changes in fair value are recognized each year.

Receivables and payables

All trade and delinquent property tax receivables are shown net of an allowance for uncollectibles, as applicable.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* (the current portion of inter-fund loans) or *advances to/from other funds* (the non-current portion of inter-fund loans.) Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	5-25
Vehicles and equipment	5-25
Improvements	15-25
Elworthy/parks and recreation	10-40
Other	2-10
Infrastructure	5-10

Compensated absences

It is the government's policy to permit employees to accumulate earned but unused sick and compensatory time benefits, subject to certain limitations. All sick time pay is accrued at 50 percent of earned and unused leave hours in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year-end, except for those approved by the City Council for carry forward. The legal level of budgetary control is the activity level for the general fund and the fund level for special revenue funds.

The City Council requires the City's Director of Finance to submit an estimate of revenues and anticipated expenditures for the succeeding fiscal year in May. The City's Director of Finance is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenues that are specifically designated to fund those activities) is not exceeded. City Council approval is required for any budgetary changes that result in an increase to net appropriations.

Formal budgetary integration is employed as a management control during the year. Supplemental appropriations were approved by the City Council in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuations.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

B. Excess of Expenditures Over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2004, the City incurred expenditures in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund Activity:			
Judicial	\$ 141,436	\$ 156,430	\$ 14,994
General Government	945,884	959,985	14,101
Public Works	1,072,574	1,099,137	26,563
Capital Outlay	452,000	565,586	113,586
Major Streets fund	246,644	251,509	4,865
Local Streets fund	629,958	665,065	35,107
Drug Forfeiture fund	-	336	336

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of June 30, 2004:

	<u>Primary Government</u>
Statement of Net Assets	
Cash and cash equivalents	\$ 5,849,404
Short term investment pools	5,057
Statement of Fiduciary Net Assets	
Cash and cash equivalents	68,090
Investments	<u>32,065,797</u>
Total	<u><u>\$ 37,988,348</u></u>
Deposits and Investments	
Bank deposits (checking accounts, savings accounts and CDs)	\$ 5,916,919
Investments in securities, mutual funds and similar vehicles	32,070,854
Cash on hand	<u>575</u>
Total	<u><u>\$ 37,988,348</u></u>

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

Deposits. At year-end, the carrying amount of deposits was \$5,916,919. The bank balance was \$6,427,667. Of the bank balance, \$2,800,397 was covered by federal depository insurance and \$3,627,270 was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits at all times. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments. The City's investments have been classified into the following three categories of credit risk: (1) insured or registered, or securities held by the government or its agent in the government's name; (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name; or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

The following schedule classifies the City's investments as of June 30, 2004, into the above noted categories:

	Category			Uncategorized	Carrying Amount (Fair Value)
	1	2	3		
Investments in U.S.					
Government Obligations	\$ -	\$ 3,154,583	\$ -	\$ -	\$ 3,154,583
Corporate stocks	-	21,110,867	-	-	21,110,867
Corporate bonds	-	5,035,353	-	-	5,035,353
Total investments	<u>\$ -</u>	<u>\$ 29,300,803</u>	<u>\$ -</u>		29,300,803
Mutual and cash management funds (uncategorized as to risk)				<u>\$ 2,770,051</u>	2,770,051
Total investments					<u><u>\$ 32,070,854</u></u>

Mutual and cash management funds are registered with the SEC. The Michigan Banking Act regulates these bank investment pools. The fair value of the position in the bank investment pools is the same as the value of the pool shares. The bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in these funds comply with the investment authority noted above.

B. Receivables

Receivables in the governmental activities are 39.2 percent due from other governments, 21.8 percent accounts receivable, 33.8 percent taxes and special assessments and 5.2 percent accrued interest. Business-type activities receivables are 86.3 percent due from customers, 1.8 percent accrued interest and 11.9 percent due from other sources.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Personal property taxes not yet received	\$ 5,137	\$ -	\$ 5,137
Payments in advance of services	-	41,000	41,000
	<u>\$ 5,137</u>	<u>\$ 41,000</u>	<u>\$ 46,137</u>

C. Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

Primary government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated -				
Land	\$ 953,739	\$ -	\$ -	\$ 953,739
Total capital assets not being depreciated	<u>953,739</u>	<u>-</u>	<u>-</u>	<u>953,739</u>
Capital assets, being depreciated:				
Buildings	5,624,031	-	-	5,624,031
Vehicles and equipment	2,173,960	245,167	(105,116)	2,314,011
Improvements	620,137	-	-	620,137
Elworthy/parks & recreation	290,127	81,870	-	371,997
Other	3,901,515	297,421	-	4,198,936
Infrastructure	<u>13,384,667</u>	<u>279,714</u>	<u>(155,987)</u>	<u>13,508,394</u>
Total capital assets being depreciated	<u>25,994,437</u>	<u>904,172</u>	<u>(261,103)</u>	<u>26,637,506</u>

(Continued)

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for				
Buildings	\$ (902,059)	\$ (230,064)	\$ -	\$ (1,132,123)
Vehicles and equipment	(1,242,306)	(223,832)	-	(1,466,138)
Improvements	(32,487)	(772)	-	(33,259)
Elworthy/parks & recreation	(49,796)	(4,806)	-	(54,602)
Other	(996,224)	(217,747)	-	(1,213,971)
Infrastructure	(7,665,706)	(601,183)	(5,776)	(8,261,113)
Total accumulated depreciation	(10,888,578)	(1,278,404)	(5,776)	(12,161,206)
Total capital assets being depreciated, net	15,105,859	(374,232)	(255,327)	14,476,300
Governmental activities capital assets, net	<u>\$ 16,059,598</u>	<u>\$ (374,232)</u>	<u>\$ (255,327)</u>	<u>\$ 15,430,039</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated -				
Land	\$ 1,007,445	\$ -	\$ (6,600)	\$ 1,000,845
Total capital assets not being depreciated	1,007,445	-	(6,600)	1,000,845
Capital assets, being depreciated:				
Parking ramp and lot improvements	1,542,042	-	-	1,542,042
Machinery and equipment	343,588	17,052	-	360,640
Utility system	4,053,984	177,052	-	4,231,036
Marina	129,893	2,055,796	-	2,185,689
Total capital assets being Depreciated	6,069,507	2,249,900	-	8,319,407
Less accumulated depreciation for				
Parking ramp and lot improvements	(1,164,201)	(39,217)	6,600	(1,196,818)
Machinery and equipment	(245,604)	(24,081)	-	(269,685)
Utility system	(2,258,464)	(107,864)	-	(2,366,328)
Marina	(2,799)	(39,860)	-	(42,659)
Total accumulated depreciation	(3,671,068)	(211,022)	6,600	(3,875,490)
Total capital assets being depreciated, net	2,398,439	2,038,878	6,600	4,443,917
Business-type activities capital assets, net	<u>\$ 3,405,884</u>	<u>\$ 2,039,878</u>	<u>\$ -</u>	<u>\$ 5,444,762</u>

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 70,237
Public safety	103,919
Public works	902,000
Recreation and culture	<u>202,248</u>
Total depreciation expense - governmental activities	<u>\$ 1,278,404</u>
Business-type activities	
Water and sewer	\$ 120,351
Auto parking	50,811
Marina	<u>39,861</u>
	<u>\$ 211,023</u>

D. Interfund Receivables, Payables and Transfers

The following are the interfund receivables and payables balances at June 30, 2004:

Fund Due To	Fund Due From	Amount
General fund	Nonmajor governmental funds	\$ 54,617
	Capital projects fund	15,108
	Marina	83,240
Capital projects fund	General fund	16,456
	Marina fund	44
Nonmajor governmental funds:		
Major streets fund	General fund	28,573
Local streets fund	General fund	72,537
Drug forfeiture fund	General fund	14,870
	Marina	2,000
Proprietary funds		
Water supply and sewage disposal	General fund	315,179
	Marina	387
Auto parking system	General Fund	<u>231,517</u>
		<u>\$ 834,528</u>

Generally, outstanding balances between funds reported as “due to/from other funds” include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payables between funds.

Additionally, there is an advance from the General Fund to the Marina for \$1,350,000 that was used by the Marina fund in the construction of the new marina.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

For the year then ended, interfund transfers consisted of the following:

	Transfer In		
	General	Nonmajor Governmental	Total
General fund	\$ -	\$ 779,645	\$ 779,645
Capital Projects fund	2,967,609	-	2,967,609
	<u>\$ 2,967,609</u>	<u>\$ 779,645</u>	<u>\$ 3,747,254</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. For the year ended June 30, 2004, the transfer out of the capital projects fund to the general fund is to close the capital projects fund .

E. Long-term Debt

Building Authority Bonds. The government issues building authority bonds to finance the renovations of the City Hall building.

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities.

Purpose	Interest Rate	Maturing Through	Amount
Governmental activities			
Building Authority Bonds	4.00% - 4.90%	2014	\$ 1,655,000
Unlimited Tax General Obligation Bonds	4.25% - 5.00%	2020	2,500,000
			<u>\$ 4,155,000</u>

Annual debt service requirements to maturity for all debt outstanding as of June 30, 2004 (excluding employee benefits) are as follows:

	Governmental Activities	
	Principal	Interest
2005	\$ 165,000	\$ 186,570
2006	185,000	179,413
2007	210,000	171,258
2008	210,000	162,449
2009	235,000	152,950
2010-2014	1,480,000	580,715
2015-2019	1,170,000	247,850
2020-2021	500,000	22,655
	<u>\$ 4,155,000</u>	<u>\$ 1,703,860</u>

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Building Authority					
Bonds	\$ 1,770,000	\$ -	\$ (115,000)	\$ 1,655,000	\$ 115,000
Unlimited Tax General					
Obligation Bonds	2,550,000	-	(50,000)	2,500,000	50,000
Accrued compensated					
Absences	490,916	76,034	-	566,950	371,986
	<u>\$ 4,810,916</u>	<u>\$ 76,034</u>	<u>\$ (165,000)</u>	<u>\$ 4,721,950</u>	<u>\$ 536,986</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

F. Segment Information – Enterprise Funds

Each enterprise fund is a segment and is reported in a separate column in the fund financial statements; therefore, segment disclosures herein are not required.

G. Reserves, Designations and Restrictions of Fund Balance and Net Assets

Reserves Reserved fund balances are legal restrictions on fund balance imposed by sources outside the City, which typically involve donor restrictions for specific purposes of City financial resources.

Designations Designated fund balances are designations imposed by the City on the use of fund balance for specific purposes.

Restricted Net Assets Restricted net assets on the Statement of Net Assets are similar to reserved fund balance in that a portion of net assets are legally restricted for a specific purpose as imposed by sources outside of the City.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

The schedule of reserved and designated fund balances is as follows:

	Reserved Fund Balance	Designated Fund Balance
Governmental activities:		
Loan to City Manager	\$ 98,695	\$ -
Advances to other funds	1,350,000	-
Prepays	31,448	
Accrued compensated absences		566,950
Future equipment purchases	-	116
Fire truck	-	234,467
Cable TV proceeds	-	1,000,000
	<u>\$ 1,480,143</u>	<u>\$ 1,801,533</u>

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for all types of claims.

Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

B. Property Taxes

Property taxes attach as an enforceable lien on property as of December 31 each year. City taxes are levied on the following July 1, and are due on August 10 with the final collection date of February 28 before they are added to the County tax rolls.

Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the City for the 2003 levy was \$343,504,341. The government's general operating tax rate for fiscal 2003-04 was 13.00 mills with an additional 4.60 mills for City debt.

Property taxes are recognized in the fiscal year in which they are levied.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

C. Contingent Liabilities

State Tax Commission v. City of Grosse Pointe, Michigan

In October 2001, the Michigan State Tax Commission initiated a petition against the City asserting that the City's waterfront municipal park is subject to County and School property taxes. The City is contesting the petition. If the State's position is sustained, there would be a potential financial impact of approximately \$10,000 per year for 2001 and 2002, and approximately \$50,000 per year for 2003 and thereafter, to be paid from the City's General Fund.

In July of 2004, the Michigan Tax Tribunal entered judgment finding that the City's liability was less than \$200 per year. The Tax Commission has appealed to the Michigan Court of Appeals.

Grosse Pointes-Clinton Refuse Disposal Authority

In April 2003, the State of Michigan Department of Environmental Quality (the "MDEQ") sent to the City, and numerous other potentially responsible parties, a Demand for Reimbursement of State Costs for remediation of the Fort Gratiot Sanitary Landfill due to the City's membership in the Grosse-Pointes-Clinton Refuse Authority (the "Authority"), a separate corporation. The letter demanded payment in the amount of \$1,723,157, plus continuing costs and interest. The total remediation costs for all eight member communities of the Authority are currently estimated at approximately \$10,000,000.

In August 2003, the Authority issued a letter to the MDEQ requesting that all member communities be eliminated from the MDEQ's list of potential responsible parties. The City intends to vigorously pursue its defense as a potential responsible party, but cannot now readily determine what the outcome will be.

General

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

D. Post-employment Benefits

Retiree Health Care

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 30 retirees and their spouses are receiving benefits. The City includes pre-Medicare retirees and their spouses in its insured health care plan and pays a percentage of the premiums based on the number of years of service for all retirees. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment health care benefits are paid by the Pension Trust Fund and recognized as the insurance premiums become due; during the year, this amounted to approximately \$218,000.

Defined Benefit Pension Plan

Plan Description

The City of Grosse Pointe Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Grosse Pointe. This plan covers all full-time employees of the City. At December 31, 2003, the date of the most recent actuarial valuation, membership consisted of 44 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 52 current active employees. The plan does not issue a separate financial report. The system provides retirement and post-employment benefits as well as death and disability benefits.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note I-D and III-A. for investment information.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining unit and other employee groups and requires a contribution from the public safety employees of 6 percent and all other city employees of 5 percent of gross wages. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost

For the year ended June 30, 2004 the City's annual pension costs were fully funded with credits resulting from the amortization of plan assets in excess of plan liabilities. The City was not required and did not make a contribution during the year. The entry age actuarial cost method was used to determine the required contribution of \$0 based on the December 31, 2001 actuarial

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

valuation. Significant actuarial assumptions used include (a) a 7.50 percent investment rate of return and (b) projected salary increases of 5.5 percent to 9.5 percent per year. Both (a) and (b) include an inflation component of 5.0 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 years.

Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation (NPO)</u>
2004	\$ -	n/a	\$ -
2003	-	n/a	-
2002	-	n/a	-

E. Restatements

As of and for the year ended June 30, 2004, the City implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

Interpretation

- No. 6 – Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements

The above pronouncements are all related to the new financial reporting requirements for all state and local governments.

The more significant of the changes required by the new standards include:

- Management’s discussion and analysis;
- Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;

CITY OF GROSSE POINTE, MICHIGAN

Notes To Financial Statements

- Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
- Schedules to reconcile the fund financial statements to the government-wide financial statements;
- Notes to the basic financial statements;
- Required supplementary information.

As a result of implementing these pronouncements for the fiscal year ended June 30, 2004, the following restatements were made to beginning fund balance and net asset accounts:

Government-wide financial statements. Beginning net assets for governmental activities was determined as follows:

Fund balances of general, special revenue, debt service and capital project as of 6/30/03	\$ 5,519,446
Add: governmental capital assets, including general fixed assets and infrastructure as of 6/30/03	26,948,176
Deduct: accumulated depreciation as of 6/30/03 on above governmental capital assets	(10,888,578)
Add: deferred revenue on taxes receivable as of 6/30/03	4,510
Deduct: general obligation bonds, and loans payable as of 6/30/03	(4,320,000)
Deduct: interest payable on long-term debt as of 6/30/03	(32,776)
Deduct: governmental compensated absences payable as of 6/30/03	(490,916)
Governmental net assets, restated, as of 7/1/03	<u><u>\$ 16,739,862</u></u>

The beginning net assets of the enterprise funds were derived by aggregating the previously reported retained earnings and contributed capital of those funds as follows:

Retained earnings as of 6/30/03	\$ 5,691,875
Add: contributed capital as of 6/30/03	243,314
Business-type activity net assets, restated, as of 7/1/03	<u><u>\$ 5,935,189</u></u>

* * * * *

***REQUIRED SUPPLEMENTARY
INFORMATION***

CITY OF GROSSE POINTE, MICHIGAN

Required Supplementary Information (Unaudited)

Retirement Benefits:

Schedule Of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded AAL (a-b)	Funded Ratio (Percentage) (a/b)	Covered Payroll (c)	Overfunded AAL as a Percentage of Covered Payroll
12/31/98	\$ 24,548,897	\$ 14,825,857	\$ 9,723,040	165.6	\$ 2,352,509	413.3
12/31/99	27,760,423	15,880,256	11,880,167	174.8	2,486,678	477.8
12/31/00	30,261,530	16,924,392	13,337,138	178.8	2,598,727	513.2
12/31/02	27,681,156	19,081,040	8,600,116	145.1	2,595,147	331.4
12/31/03	29,139,491	18,887,820	10,251,671	154.3	2,902,824	353.2

There was no actuarial valuation performed as of December 31, 2001.

Schedule of Employer Contributions

Years Ended June 30	Annual Required Contribution	Percentage Contributed
2000	\$ -	n/a
2001	-	n/a
2002	-	n/a
2003	-	n/a
2004	-	n/a

Post-employment Benefits

Schedule Of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (Percentage) (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll
12/31/98	\$ 2,152,008	\$ 1,638,074	\$ (513,934)	131.4	\$ 2,352,509	(21.8)
12/31/99	2,426,090	2,607,511	181,421	93.0	2,486,678	7.3
12/31/00	2,551,571	3,107,305	555,734	82.1	2,598,727	21.4
12/31/02	1,403,232	2,254,340	851,108	62.2	2,595,147	32.3
12/31/03	1,403,232	2,753,152	1,349,920	51.0	2,902,824	46.5

There was no actuarial valuation performed as of December 31, 2001.

CITY OF GROSSE POINTE, MICHIGAN

Required Supplementary Information (Unaudited)

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2003, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll, closed
Remaining amortization period	10 years
Asset valuation method	4 Year Smoothed Market value
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases *	5.5% - 9.5%
* Includes inflation at	5.0%
Cost of living adjustments	None

***COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES***

CITY OF GROSSE POINTE, MICHIGAN
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>Special Revenue</u>				<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Major Streets</u>	<u>Local Streets</u>	<u>Drug Forfeiture</u>	<u>Budget Stabilization</u>	<u>Debt Service</u>	
Assets						
Cash and investments	\$ -	\$ -	\$ -	\$ 475,000	\$ -	\$ 475,000
Due from other funds	28,573	72,537	16,870	-	-	117,980
Due from other governments	42,448	14,853	-	-	-	57,301
	<u>71,021</u>	<u>87,390</u>	<u>16,870</u>	<u>475,000</u>	<u>-</u>	<u>650,281</u>
Liabilities						
Accounts payable	\$ 2,640	\$ 32,773	\$ -	\$ -	\$ -	\$ 35,413
Due to other funds	-	54,617	-	-	-	54,617
	<u>2,640</u>	<u>87,390</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,030</u>
Fund balance:						
Unreserved						
Undesignated	<u>68,381</u>	<u>-</u>	<u>16,870</u>	<u>475,000</u>	<u>-</u>	<u>560,251</u>
Total liabilities and fund balance	<u>\$ 71,021</u>	<u>\$ 87,390</u>	<u>\$ 16,870</u>	<u>\$ 475,000</u>	<u>\$ -</u>	<u>\$ 650,281</u>

CITY OF GROSSE POINTE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Special Revenue</u>				<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Major Streets</u>	<u>Local Streets</u>	<u>Drug Forfeiture</u>	<u>Budget Stabilization</u>	<u>Debt Service</u>	
Revenues						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 158,012	\$ 158,012
Intergovernmental						
State	249,964	87,396	-	-	-	337,360
Other	-	-	4,737	-	-	4,737
Total revenues	<u>249,964</u>	<u>87,396</u>	<u>4,737</u>	<u>-</u>	<u>158,012</u>	<u>500,109</u>
Expenditures						
Current:						
Public safety	-	-	336	-	-	336
Public works						
Construction	-	279,714	-	-	-	279,714
Routine maintenance	172,184	292,474	-	-	-	464,658
Winter maintenance	28,367	29,514	-	-	-	57,881
Traffic service	25,572	12,197	-	-	-	37,769
Administration	25,386	51,166	-	-	-	76,552
Debt service						
Principal	-	-	-	-	165,000	165,000
Interest and fees	-	-	-	-	193,120	193,120
Total expenditures	<u>251,509</u>	<u>665,065</u>	<u>336</u>	<u>-</u>	<u>358,120</u>	<u>1,275,030</u>
Revenues over (under) expenditures	(1,545)	(577,669)	4,401	-	(200,108)	(774,921)
Other financing sources (uses)						
Transfers in	<u>5,000</u>	<u>574,537</u>	<u>-</u>	<u>-</u>	<u>200,108</u>	<u>779,645</u>
Net change in fund balances	3,455	(3,132)	4,401	-	-	4,724
Fund balances, beginning of year	<u>64,926</u>	<u>3,132</u>	<u>12,469</u>	<u>475,000</u>	<u>-</u>	<u>555,527</u>
Fund balances, end of year	<u>\$ 68,381</u>	<u>\$ -</u>	<u>\$ 16,870</u>	<u>\$ 475,000</u>	<u>\$ -</u>	<u>\$ 560,251</u>

CITY OF GROSSE POINTE, MICHIGAN
DETAILED SCHEDULE OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Property taxes				
Property taxes	\$ 4,623,774	\$ 4,623,774	4,454,296	\$ (169,478)
Payments in lieu of taxes	34,000	34,000	45,502	11,502
Property tax administration fees	112,500	112,500	107,545	(4,955)
Interest, penalties and other	15,100	15,100	25,819	10,719
Total property taxes	4,785,374	4,785,374	4,633,162	(152,212)
Licenses and permits				
Business licenses	7,400	7,400	5,864	(1,536)
Building permits	28,000	28,000	34,801	6,801
Electrical, heating and plumbing permits	24,500	24,500	24,304	(196)
Code enforcement	8,400	8,400	15,470	7,070
Other	750	750	775	25
Total licenses and permits	69,050	69,050	81,214	12,164
Federal sources				
FEMA grant	-	-	27,133	27,133
CDBG program	-	-	8,400	8,400
Other Federal revenue	-	-	1,222	1,222
Total federal sources	-	-	36,755	36,755
State sources				
Revenue-sharing	561,800	561,800	517,296	(44,504)
Liquor license fees	2,100	2,100	2,087	(13)
State grant	-	-	2,003	2,003
Total state sources	563,900	563,900	521,386	(42,514)
Charges for services				
Recreation program fees	26,750	26,750	25,108	(1,642)
Refuse and recycling collection	102,900	102,900	109,501	6,601
Vital statistics and ambulance fees	56,040	56,040	54,692	(1,348)
Other charges for services	-	-	14,433	14,433
Total charges for services	185,690	185,690	203,734	18,044

(Continued)

CITY OF GROSSE POINTE, MICHIGAN
DETAILED SCHEDULE OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Fines and forfeitures				
Municipal Court and probation fees	\$ 192,325	\$ 192,325	\$ 233,211	\$ 40,886
Interest and rent				
Interest	140,000	140,000	69,385	(70,615)
Other revenue				
Miscellaneous	43,140	98,540	286,948	188,408
Proceeds from insurance	-	-	2,587	2,587
Sale of capital assets	-	-	9,310	9,310
Reimbursements from other funds	94,750	94,750	228,458	133,708
Total other revenue	137,890	193,290	527,303	334,013
Other financing sources				
Transfers in	-	-	2,967,609	2,967,609
Total revenue and other financing sources	\$ 6,074,229	\$ 6,129,629	\$ 9,273,759	\$ 3,144,130

CITY OF GROSSE POINTE, MICHIGAN
DETAILED SCHEDULE OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts			Actual (Over) Under
	Original	Final	Actual	Final Budget
Judicial				
Personnel	\$ 79,396	\$ 79,396	\$ 87,764	\$ (8,368)
Supplies and capital outlay	4,020	4,020	2,781	1,239
Professional and contractual	58,020	58,020	65,885	(7,865)
Total judicial	141,436	141,436	156,430	(14,994)
General government				
City administration				
Personnel	168,282	168,282	164,860	3,422
Supplies and capital outlay	36,605	38,205	59,879	(21,674)
Professional and contractual	208,240	253,490	264,665	(11,175)
Human resources				
Personnel	57,844	57,844	48,510	9,334
Supplies and capital outlay	5,840	5,840	3,169	2,671
Clerk/Elections				
Personnel	69,797	69,797	66,128	3,669
Supplies and capital outlay	900	900	1,072	(172)
Professional and contractual	11,150	11,150	5,868	5,282
Finance				
Personnel	178,951	178,951	184,403	(5,452)
Supplies and capital outlay	300	300	275	25
Professional and contractual	20,850	20,850	16,221	4,629
Board of Review	57,149	57,149	58,603	(1,454)
Inspections	83,126	83,126	86,333	(3,207)
Total general government	899,034	945,884	959,986	(14,102)
Public safety				
Personnel	2,216,261	2,216,261	2,156,432	59,829
Supplies and capital outlay	193,221	193,221	53,900	139,321
Professional and contractual	236,814	236,814	294,836	(58,022)
Total public safety	2,646,296	2,646,296	2,505,168	141,128

CITY OF GROSSE POINTE, MICHIGAN
DETAILED SCHEDULE OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts			Actual (Over) Under Final Budget
	Original	Final	Actual	
Public works				
Department of Public Works				
Personnel	\$ 499,870	\$ 499,870	\$ 532,137	\$ (32,267)
Supplies and capital outlay	48,900	43,900	50,144	(6,244)
Refuse disposal	170,000	170,000	162,955	7,045
Recycling	66,144	66,144	67,966	(1,822)
Street lighting	153,600	161,600	158,000	3,600
Other professional and contractual	102,860	131,060	127,935	3,125
Total public works	1,041,374	1,072,574	1,099,137	(26,563)
Parks and recreation				
Personnel	306,795	320,795	314,014	6,781
Supplies and capital outlay	38,250	49,050	36,340	12,710
Professional and contractual	99,058	172,208	154,505	17,703
Total parks and recreation	444,103	542,053	504,859	37,194
Capital Outlay	341,000	452,000	565,585	(113,585)
Other financing uses				
Transfers out	897,317	897,317	779,645	117,672
Total expenditures and other financing uses	\$ 6,410,560	\$ 6,697,560	\$ 6,570,810	\$ 126,750

CITY OF GROSSE POINTE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
MAJOR STREETS
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 220,750	\$ 220,750	\$ 249,964	\$ 29,214
Expenditures				
Routine maintenance	138,398	176,398	172,184	(4,214)
Winter maintenance	29,973	29,973	28,367	(1,606)
Traffic services	14,273	15,273	25,572	10,299
Administration	25,000	25,000	25,386	386
Total expenditures	207,644	246,644	251,509	4,865
Excess (deficiency) of revenues over (under) expenditures	13,106	(25,894)	(1,545)	24,349
Other financing sources (uses)				
Transfers in	-	-	5,000	5,000
Net change in fund balances	13,106	(25,894)	3,455	29,349
Fund balance, beginning of year	64,926	64,926	64,926	-
Fund balance, end of year	\$ 78,032	\$ 39,032	\$ 68,381	\$ 29,349

CITY OF GROSSE POINTE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LOCAL STREETS
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts			Actual Over (Under) Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Intergovernmental	<u>\$ 76,400</u>	<u>\$ 76,400</u>	<u>\$ 87,396</u>	<u>\$ 10,996</u>
Expenditures				
Construction	300,000	300,000	279,714	(20,286)
Routine maintenance	237,542	289,542	292,474	2,932
Winter maintenance	22,716	22,716	29,514	6,798
Traffic services	3,500	3,500	12,197	8,697
Administration	<u>10,200</u>	<u>14,200</u>	<u>51,166</u>	<u>36,966</u>
Total expenditures	<u>573,958</u>	<u>629,958</u>	<u>665,065</u>	<u>35,107</u>
Excess (deficiency) of revenues over (under) expenditures	(497,558)	(553,558)	(577,669)	(24,111)
Other financing sources (uses)				
Transfers in	<u>534,000</u>	<u>534,000</u>	<u>574,537</u>	<u>40,537</u>
Net change in fund balances	36,442	(19,558)	(3,132)	16,426
Fund balance, beginning of year	<u>3,132</u>	<u>3,132</u>	<u>3,132</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 39,574</u></u>	<u><u>\$(16,426)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 16,426</u></u>



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

September 3, 2004

To the City Council
City of Grosse Pointe
Wayne County, Michigan

We have audited the financial statements of the *City of Grosse Pointe, Michigan* as of and for the year ended June 30, 2004, and have issued our report thereon dated September 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the *City of Grosse Pointe, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered *City of Grosse Pointe, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, and City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.